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IRS vs. CIA

Big Tax Investigation Was Quietly Scuttled By Intelligence Agency

Bahamian Bank's Hundreds
Of U.S. Account Holders
Go Unchecked as a Result

SEC Runs Into a Stone Wall

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NASSAU, Bahamas—One of the more titillating business stories that somehow managed to reach the public prints in the last decade was the great Castle Bank caper.

Remember? It was the escapade in which two Internal Revenue Service agents outdid themselves as sleuths only to have their chief throw out their hard-gained evidence of possible massive tax evasion as inadmissible.

For years IRS agents had been trying, without much success, to obtain documentary proof that Americans were using offshore banks in the Caribbean to hide income and evade taxes. One of the suspect banks was the privately owned, Nassau-based Castle Bank & Trust (Bahamas) Ltd. So one night in 1973, while an official of the Castle Bank was having dinner at a posh Key Biscayne, Fla., restaurant with a woman an IRS informant had hired as a decoy, the informant let himself into her apartment, took the banker's briefcase and gave it to two IRS agents. After photographing the briefcase's contents, the agents had the briefcase returned to the woman's apartment and, for the time being at least, the banker was none the wiser.

A Rich Haul

The photographed documents were a revelation. One of them was a computer print-out of the bank's account holders—some 308 names, including not only nationally known U.S. businessmen and entertainers but quite a few well-known organized-crime figures as well. The account holders controlled about a quarter of a billion dollars in assets. To the jubilant agents the list presented the possibility of the single biggest tax-evasion strike in IRS history.

Their elation eventually faded, however, after Donald Alexander, then the IRS commissioner, announced that Project as the Caribbean investigation was being suspended because the suspicious acquisition of the list was an overreach. The Justice Department, however, launched a grand-jury investigation. The IRS dropped out of the picture, but in 1977 that it, too, was bowing out because a federal district court judge had ruled that the list had been illegally obtained.

It now appears that pressure from the Central Intelligence Agency, rather than a legal problem, was what caused the Department to drop what could have been the biggest tax-evasion case of all. Moreover, the supposed legal obstacle using the Castle Bank depositors' list was questionable at best—the government already had in its possession the same list legally obtained.

What caused the Justice Department to back off seems to have been the CIA's concern that pursuit of the Castle Bank would endanger "national security." This was involved because the bank, besides its possible use as a haven for tax evaders, was the conduit for millions of dollars earmarked by the CIA for the funding of clandestine operations against Cuba and for other covert intelligence operations directed at countries in Latin America and the Far East. A major tax-evasion investigation of the bank probably would have endangered these CIA operations.

Drafting a New CIA Charter

The case has current significance because Congress at the moment is considering a new CIA charter that would give congressional committees and the courts advance notice of such undercover or front operations.

Castle Bank was set up and principally controlled by the late Paul Lionel Edward Helliwell, a Miami lawyer. Mr. Helliwell, who had longstanding ties to the U.S. intelligence community, was instrumental in helping to direct a network of CIA undercover operations and "proprietarys." (A proprietary is a concern secretly set up and controlled by the CIA, ostensibly as a legitimate business.)

Despite repeated requests for comment, officials at the CIA, Justice Department and the Helliwell law firm refuse to discuss the case. Castle Bank, which closed its operations in the Bahamas and Cayman Islands in 1977, is currently based in Panama, but apparently has no offices there. Although the government has never released the names of Castle Bank's 1973 account holders, a copy of the list was reviewed by this newspaper.

The bulk of the Castle Bank account holders' names of foreign entities, mostly Bahamian or Panamanian, according to the list. Other documents in Nassau show that the common thread of these companies is that they were mostly formed or controlled by Paul Helliwell and his associates.

The gruff Mr. Helliwell, 62 when he died on Christmas Eve, 1976, from emphysema complications, was no stranger to the murky world of spying. During World War II, he was chief of special intelligence in China for the Office of Strategic Services, or OSS, the forerunner of the CIA.

Colleagues from those days recall that Mr. Helliwell, then a colonel, regularly used to buy information with five-pound shipments of opium ("three sticky brown bars," according to one man). They also say he ran an operation code-named "Deer Mission," in which OSS personnel secretly parachuted into Indochina to treat Ho Chi Minh for malaria.

In 1951, Mr. Helliwell helped set up and run Sea Supply Corp., a concern controlled by the CIA as a front. For almost 10 years, Sea Supply was used to supply huge amounts of weapons and equipment to 10,000 Nationalist Chinese troops in Burma as well as to Thailand's police.

One former federal official who helped scrutinize Castle says, "Castle was one of the CIA's finance channels for operations against Cuba." Mr. Helliwell reputedly was one of the paymasters for the ill-fated Bay of Pigs invasion in 1961, as well as for other "extensive" CIA operations throughout Latin America. In particular, the former federal official says, Mr. Helliwell was "deeply involved" in financing a series of covert forays between 1964 and 1975 against Cuba by CIA operatives working from Andros Island, the largest of the Bahamian islands.